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C O N F I D E N T I A L SECTION 01 OF 03 YAOUNDE 000382

SIPDIS

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STATE ALSO FOR EB AND AF/C  
TREASURY PLEASE PASS TO U.S. EXECUTIVE DIRECTORS AT THE  
WORLD BANK AND IMF  
LONDON AND PARIS FOR AFRICA ACTION OFFICERS  
EUCOM FOR J5-A AFRICA DIVISION AND POLAD YATES

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TAGS: EFIN ECON PREL KCOR ECPS CM EPET

SUBJECT: IMF/WORLD BANK MISSION GIVES CAMEROON HALF-HEARTED  
OKAY

REF: A. YAOUNDE 132 (NOTAL)

¶B. YAOUNDE 289 (NOTAL)

Classified By: Pol/Econ Officer Tad Brown for reasons 1.4 b and d.

PARAGRAPHS MARKED SENSITIVE BUT UNCLASSIFIED (SBU) NOT FOR  
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¶1. (C) Summary. IMF Mission Chief Dan Ghura said publicly on March 15 that Cameroon's performance is "globally" on track, but the IMF's bland public pronouncements obscure some shortcomings in Cameroon's financial governance. Most troubling was the relapse in 2006 of extra-budgetary spending of \$48 million in national oil receipts. Execution of the investment budget remains problematic, but has improved in absolute terms since FY2005. Lower-than-projected oil prices in 2007 have meant that FY07 GRC revenues might need to be revised downward by around \$400 million, or roughly 9 percent of the total budget. Cameroon's business climate and official planning functions continue to cripple the economy, and there is reason to worry about the completion of the long-awaited privatization of state telecom CAMTEL. End summary.

¶2. (SBU) In separate conversations with the donor community and Cameroonian press on March 15, IMF Mission Director Dan Ghura previewed the conclusions of a March 1-15 joint IMF-World Bank review of Cameroon's DSRP performance for the period July to December 2006 (ref b). Ghura concluded that "globally" Cameroon's performance is on track, but his review of more detailed discussion revealed a number of significant problems.

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\$48 Million Off the Books; A Costly Relapse  
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¶3. (C) In a follow-up meeting with Poloff on March 20, a World Bank official explained that the IMF Mission was most troubled by the discovery that upwards of \$48 million in receipts from the National Hydrocarbons Company (SNH) had been transferred directly to select individual ministries in contravention of standard financial procedures and a long-standing commitment from the Government of Cameroon (GRC) to the IFIs. According to the World Bank official, the Mission's counterparts at the Ministry of Economy and Finance (MINEFI) professed to have been kept out of the transaction, which was ordered directly by the Presidency, purportedly to

finance greater than expected security operations in the newly acquired Bakassi Peninsula and the troubled regions along the borders with Chad and the Central African Republic.

¶4. (C) According to the World Bank official, the IFIs had long worked with the GRC to rectify past practice whereby SNH receipts were treated like the President's personal slush fund. After many years of negotiations, including an "interim period" that allowed for direct transfers to the "sovereign" ministries (Defense, Foreign Affairs, Justice, and the Police), the Presidency had finally stopped effecting such extra-budgetary transfers. In response to this relapse, the IMF will include a prohibition on extra-budgetary expenditures as one of its performance criteria for Cameroon.

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CHEAPER OIL MAY COST CAMEROON GOVERNMENT \$400 MILLION  
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¶5. (SBU) Cameroon's FY07 budget projected about \$1.4 billion (or one-third of total GRC receipts) from oil revenues (ref A). The IMF Mission believes that the unexpected dip in world oil prices will reduce actual receipts by about \$400 million. Although this shortfall would be substantial (almost 10 percent of the total budget and 2.5 percent of GDP), the World Bank believes the immediate impact on Cameroon's short-term development will be negligible because most of the petroleum receipts had already been earmarked to pay down domestic debt, which could be rolled over at minimal cost.

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INVESTMENT EXPENDITURE EXECUTION LAGS, COULD DRAG GROWTH  
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YAOUNDE 00000382 002 OF 003

¶6. (SBU) The IMF Mission found that execution of public investment expenditures continued to be problematic and warned that projections of economic growth and poverty reduction might need to be revised downward. The World Bank official agreed that the GRC's inability to bring investment plans to fruition was troubling, but countered that the GRC investment spending was 21 percent higher in FY06 than in FY05, a commendable achievement.

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END OF THE HIPC ERA  
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¶7. (SBU) Ghura pointed out that, having achieved completion point, the GRC is no longer bound to maintain the separate budgetary procedures that had singled out the disposition of funds going to pro-poor "HIPC" purposes. The HIPC process, which is better known in Cameroon by its French acronym PPTE, has created separate budget tracking and auditing procedures that allow donors and Cameroonian citizens more transparency in how HIPC funds are spent. Ideally, this transparency would ensure better results. To date, however, the increased transparency has meant only that donors and select members of civil society have a better understanding of how GRC (and donor) resources are squandered on peripheral costs like vehicles, fuel, travel expenses for domestic and international trips, and office furniture. According to the World Bank official, transparency will eventually help rectify these problems, but it would be wiser to address the entirety of the budget than to continue with a second, costly set of processes to track only HIPC spending priorities.

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CAMEROON'S BUSINESS CLIMATE: BAD AND GETTING WORSE  
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¶8. (C) Despite the rosy tinge on the IMF's public statements, Ghura identified structural problems that are

strangling Cameroon's economic growth and development, including dropping national levels of productivity and the cumulative effects of Cameroon's business climate, one of the worst in the world. Officials with the World Bank's Doing Business unit told the IMF Mission and donors that there was nothing to be done at this late date to improve Cameroon's score in the next Doing Business rankings. In fact, since Cameroon has not made any noticeable improvements in its business climate while other countries have taken important strides, Cameroon can expect to drop further in the rankings than the 5 slots it slipped in last year's report (from 147 to 152). In order for the changes to register in the 2008 report, according to the World Bank officials, Cameroon would have to post notable improvements by June 2007. (Comment: Not likely.)

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Hot Button Issue: Civil Service Salaries

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¶9. (SBU) The perceived need to raise civil service salaries remains a hot button issue in Cameroon, especially in discussions with the IMF and World Bank, which are widely believed to be responsible for crippling salary cuts during mid-90s conditionalities (ref b). At the March 15 briefing with donors, Ghura said that the IMF Mission pointed to continuing structural problems as the true impediments to increasing salaries. First, the GRC is squandering millions of dollars each month on CAMAIR and other parastatals that have long been slated for privatization. Second, the public service rolls are still bloated with the existence of ghost workers (though upwards of 5,000 have supposedly been identified and their removal initiated) and the complete lack of salary tracking, which enables individuals to receive sometimes 10 times their appropriate salary. The savings from these rationalizations, said Ghura, would be more than sufficient for substantial increases in public service salaries.

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CAMTEL PRIVATIZATION ON TRACK BUT AT RISK

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¶10. (SBU) The IMF Mission said that the privatization of YAOUNDE 00000382 003 OF 003

state telecom CAMTEL is still on track and needs to be concluded smoothly for the good of Cameroon's business and investment climate and to free up public resources for more pressing development priorities. According to the World Bank official, of the more than 12 companies that pre-qualified for the CAMTEL tender process in the fall of 2006, five prospective bidders remain interested and have attended February meetings in Paris and in-country inspections of CAMTEL that are currently on-going. No American companies are believed to be among the five, which are said to include French, South African and Indian firms.

¶11. (C) The media and rumor circuits in Yaounde (not that there is a clear distinction) have been buzzing with allegations that Finance Minister Polycarpe Abah Abah colluded with Franck Biya (President Biya's eldest son from his first marriage) and others to defraud Cameroon's treasury out of tens of millions of dollars by manipulating CAMTEL shares (septel). Even if proven untrue, these charges threaten to scare off investors and derail the privatization.

The prospective bidders for CAMTEL have apparently requested a full audit of CAMTEL's 2006 transactions in an effort to better ascertain the parastatal's financial position. (Note: Separately, Embassy inquiries with a Deputy Director at CAMTEL to find out why a U.S. businesswoman supplying services could not collect revealed that CAMTEL is not paying any of its contractors -- some have been waiting four years. According to our source, CAMTEL's financial position continues to worsen; he advised against dealing with the firm. End Note)

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IMF MISSION SCORES ANTI-CORRUPTION VICTORY

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¶12. (C) Despite initial reticence to focus on issues of corruption and governance (ref b), Ghura said his team pressed the GRC "many times" to follow through on the promised establishment of the National Anti-Corruption Commission (CONAC) and the implementation on the constitutionally required asset declaration for senior officials (Article 66 of the constitution). On March 15, the final day of the IMF Mission, President Biya nominated the 11-member commission (septel). According to the World Bank official, Prime Minister Inoni told the Mission that the nomination process took so long (CONAC was announced in March 2006, as HIPC Completion Point was under final discussion) because of the extensive background checks the GRC undertook to ensure CONAC members would be free from allegations of corruption. Additionally, Inoni promised the IMF Mission that the provisions for asset declaration would be implemented later in 2007.

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